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C O N F I D E N T I A L SECTION 01 OF 04 HAVANA 000697

SIPDIS

STATE FOR WHA/CCA

E.O. 12958: DECL: 11/18/2019

TAGS: [ETRD](#) [EAGR](#) [PGOV](#) [PINR](#) [PREL](#) [ECON](#) [CU](#)

SUBJECT: TRADING WITH THE ENEMY - DISAPPOINTING CUBAN TRADE
FAIR 2009

REF: A. 08 HAVANA 863 (POMP AND CIRCUMSTANCE AT ANNUAL
TRADE FAIR)

[1](#)B. HAVANA 322 (HOW MIGHT CUBA ENTER ANOTHER SPECIAL
PERIOD)

[1](#)C. HAVANA 639 (A SPLENDID LITTLE VISIT)

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Classified By: Chief of Mission Jonathan Farrar for reasons 1.4 (b) and
(d)

[1](#)1. (SBU) SUMMARY: Representatives of U.S. exporters told us they received an unusually cool reception from the Cuban Government at this year's Havana trade fair. While some exporters reported business more or less as usual, we heard more complaints than in previous years regarding everything from late invitations, delayed visas, marginalized show space, and little attention from Alimport, the lone Government of Cuba (GOC) buyer of U.S. agricultural products.

Cuban Trade Minister Rodrigo Malmierca used his inaugural address to try to allay continued concerns by non-U.S. exporters regarding delayed payments and frozen accounts, while at the same time confirming that total trade (exports plus imports) is expected to fall by 36% in 2009. Despite the grim news, countries such as Brazil, Russia and Iran, as well as the European Union, continue to seek to strengthen their commercial ties with Cuba. END SUMMARY.

U.S. EXPECTATIONS LOWER

[1](#)2. (SBU) More than ever before, U.S. delegations attending the 37th Havana International Fair (FIHAV-09) complained about the attention and service they received from the Cuban Government. Alimport delivered invitations just two months before the Fair; much later than usual. Most travelers did not receive their visas until one or two days before departure, and several were told by CUBINT to go ahead and travel without a visa and work out the entrance requirements with Cuban immigration upon arrival in Havana. Similar to 2008 (Ref A), U.S. booths were relegated to the back end of a pavilion on the outskirts of the fairgrounds. This is in sharp contrast to the prominent position granted U.S.

delegations for the first several years after Congress excluded the sale of agricultural products from U.S. trade sanctions in 2001. This year, visitors to the Alimport pavilion had to wade through twice the number of vendors from other countries as in 2008 before reaching the U.S. booths, and for about half the Fair the pavilion was only open to Alimport employees. One businessman told us that the tepid reception could only mean that Cuba was clearly recalculating the political benefit of buying from U.S. businesses.

13. (SBU) Some U.S. delegations reported business more or less as usual. Nielsen Citrus Products (lime juice) and Quality Port International told us they renewed contracts. Cargill and Bunge said they were pleased with their continued relationship with Alimport, but refused to share any details with USINT. Crowley Shipping continues to send one container ship per week to Cuba, although the size of the shipments, consisting mostly of chicken, is expected to shrink over the next few months. Rice producers did not expect to sell U.S. rice to Cuba for the second year in a row. Although the overall price, including transportation costs and quality, is competitive for the Cuban market, U.S. rice producers cannot compete with the credit terms of 360 days Cuba receives from Vietnam. Even absent the embargo, U.S. rice producers would not offer credit more than 90 days to Cuba unless the purchase was part of a U.S. foreign aid program. Several U.S. exporters told us that enabling direct financial transactions with Cuba and protecting those payments from judicial attachment would be much more valuable than permitting U.S. businesses to extend credit.

U.S. COMMERCIAL PRESENCE REMAINS SIGNIFICANT

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14. (SBU) U.S. companies have sold \$415 million worth of products to Cuba through September 2009. U.S. exports exceeded the record levels reported in 2008 through the first quarter of 2009, however sales have declined significantly since then and are now 22% less than the same period last year. Nevertheless, the United States is expected to remain the fourth largest supplier of goods (closing the gap on #3 Spain) and the largest supplier of food to Cuba. Total sales for 2009 are likely to reach between \$500 and \$600 million, well below the \$712 million sold in 2008 but still higher than any previous year. (Note: Cuba reports higher trade figures because they include transportation and other transaction costs. End Note.)

MIXING BUSINESS WITH POLITICS

15. (C) Trade negotiations remain politically sensitive and a small number of delegations at this year's Fair made it clear that they wanted to keep their distance from the U.S. Interests Section. Although the Charge hosted a breakfast for 15 U.S. business representatives, where we had a chance to engage much closer than in previous years, some stayed away. The Virginia state delegation, for example, told us it would not attend because it did not want to jeopardize its growing and yet still delicate trading relationship with the GOC. At the Fair itself, one otherwise friendly U.S. vendor asked us to move along from his booth when he spotted the president of the Cuban Chamber of Commerce and former president of Alimport Pedro Alvarez approaching. A U.S. businessman from New Jersey told us that, in years past, U.S. government reps "harangued" him publicly for doing business in Cuba. In the press, current Alimport president Igor Montero threatened that imports from the United States were unlikely to return to previous levels without the possibility for Cuba to generate revenues through Cuban exports to the United States, i.e. the end of the embargo.

16. (SBU) Thirty plus U.S. booths with up to 200 representatives participated in the 37th Havana International

Fair (FIHAV-2009). According to the official catalogue, U.S. delegations (companies, state delegations, and federations) represented 57 different U.S. companies. Only Italy (61), Spain (68), Brazil (80), and Cuba (116) hosted more. Last year, the official press claimed over 200 U.S. businessmen representing 39 companies. Only Venezuela (52), Italy (59), Spain (81), and Cuba (133) hosted more in 2008. U.S. participation has been on the decline in the last few years with more than 70 booths in 2007, 100 booths in 2006, and 188 booths in 2005. Brazilian participation more than doubled from last year's total of 36 companies, while Venezuela brought 16 fewer companies to this year's Fair.

GRIM CUBAN OUTLOOK

¶7. (SBU) FIHAV-09 was inaugurated on November 2 by Cuban Minister of Foreign Trade and Investment Rodrigo Malmierca (Note: Traditionally, the Fair was opened by Carlos Lage who was dismissed from his post as Vice President in March. End Note.) In his opening speech, Malmierca celebrated that, despite the participation of fewer businesses (652) and fewer countries (51) than last year, the fact that anyone came at all in the current global economic recession was a testament to "the lure" of the Cuban market. Cuban officials announced (both before and after the Fair) the signing of contracts worth \$150 million, down from \$350 million signed in 2008.

¶8. (SBU) In response to concerns of growing official and commercial debt, Malmierca repeated previous GOC promises that Cuba would continue to be "a reliable market that fulfills its commitments." We continue to hear complaints from foreign firms and other diplomats that even when

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companies are paid, the companies are not permitted to convert the currency from the Cuban peso nor transfer the funds outside of Cuba. A Canadian commercial officer told us that he now starts his presentations to Canadian companies with a note that the GOC is currently restricting the flow of capital and not paying its bills on time (Ref B). "I suspect that many of the businesses there were in the business of collection rather than selling," a foreign diplomat told us.

¶9. (SBU) Malmierca confirmed that the global economic crisis has hit Cuba hard. He reported a 36% decrease in total trade (exports plus imports) through the third quarter of 2009. He claimed imports represented 80% of the decline (Note: Imports represent about 80% of total trade, so if they also represent 80% of the decline then imports and exports have actually declined proportionally, or about 36% each. End Note.) Malmierca did not explain how Cuba might escape its current financial woes. Rather, he informed the audience of current and potential exporters that Cuba's focus remains on reducing imports and encouraging investments that would promote import substitution.

SOME COUNTRIES NOT DETERRED DESPITE MIXED RESULTS

¶10. (SBU) BRAZIL: In spite of the grim economic and commercial outlook, several countries continue to extend their commercial ties with Cuba. Brazil had a particularly large representation at this year's Fair. Cuban president Raul Castro met with Brazilian Foreign Trade Minister Miguel Jorge and both countries committed to upgrade industrial factories in Cuba and build pharmaceutical factories in Brazil. Brazilian exports grew 57% in 2008 to make it Cuba's sixth largest supplier. Brazil is also quickly becoming a key investor with important projects including the development of the Mariel port (with help from China and Dubai) and oil exploration. The head of Brazil's one-year old export promotion agency in Cuba told us that over 110 Brazilian businesses have visited Cuba in just the last six months. The Brazilian ambassador told us official credit lines are being serviced on time, but companies that have

offered private (commercial) credit have the same problems as everyone else.

¶11. (U) VIETNAM AND CHINA: During the Fair, Cuba and Vietnam signed a letter of intent between Cuban company Unecamoto and Vietnamese company Nhat Trang to assemble trucks, buses and cars in Cuba. Vietnamese exports to Cuba grew by 85% in ¶2008. China and Cuba committed to extend their relationship beyond just trade, while highlighting Chinese investment in telecommunications, electronics, tourism and mining. Chinese total trade with Cuba actually fell 12% in 2008, and has declined by almost 30% in 2009.

¶12. (U) IRAN AND RUSSIA: Iran bumped up its line of credit available to Cuba from about \$300 million to \$740 million for the purchase of Iranian goods and engineering services. Total trade between Cuba and Iran doubled in 2008 to \$46 million, but remained less than 0.3% of Cuba's total trade. Russian exports to Cuba fell slightly in 2008 after nearly doubling in 2007. At this year's Fair, the Russians signed four agreements for oil extraction in the Cuban provinces of Matanzas, Sancti Spiritus, Villa Clara and Ciego de Avila.

¶13. (SBU) CANADA AND SPAIN: The Canadian Commercial Corporation announced the opening of an office in Havana to promote and facilitate commercial cooperation. Canada remains Cuba's largest source of tourists, third largest investor and fourth largest trade partner. Total trade in 2009, however, is expected to fall by more than 50%. Spain once again had a strong showing at the Fair. As Cuba's largest investor and third largest trade partner, Spanish businesses have been hit hard by Cuba's financial problems with hundreds of millions of dollars in arrears and

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difficulties getting money off the island. It is not yet clear how Spanish Foreign Minister Moratinos' October visit has helped this situation (Ref C). Nevertheless, Prime Minister Zapatero sent a message of congratulations to Spanish businessmen "committed to Cuba's economic growth and the increase of its social well-being."

¶14. (U) EUROPEAN UNION: EU Commissioner for Development and Humanitarian Aid, Karel De Gucht, opened the first EU-wide booth in eight years as part of an official visit (septel). Both the EU and Cuba framed this participation as a positive advance in the relationship. The booth highlighted trade opportunities with the entire European community, and offered space for countries such as the United Kingdom, Hungary, Bulgaria, Greece, the Czech Republic, Romania and Sweden that did not organize their own booths. France, Germany, Italy, Belgium and Spain were all represented in their own pavilions.

¶15. (SBU) VENEZUELA: Similar to last year, Cuba downplayed the role of Venezuela in the Fair as its largest trade partner. The Venezuelan pavilion was unimpressive with only a few representatives from state owned companies, but with reams of Chavez's literature and posters on offer. No high level visitors from Venezuela attended the Fair. Venezuela represented one-fifth of Cuba's total trade (in goods), more than double Cuba's trade with number two China. The trade value with Venezuela should decline in 2009 with significantly lower oil prices. However, when you add investments and trade in services Venezuela represents a massive percentage of Cuba's external economy.

COMMENT

¶16. (C) Cuba has to be one of the most unattractive trading or investment destinations. The treatment of foreign companies is heavy-handed, and the GOC insists on controlling nearly all business activity. The GOC is an unreliable payer at best, and has very few sources of real or prospective

income. So, it is noteworthy that despite these setbacks, U.S. and foreign businesses continue to flock to Cuba every year to try to do a little bit of business and hopefully get a foot in the door for an eventual economic opening. For foreign exporters, 2008 was an anomaly with international prices at record highs and a surge in imports due to damages caused by three hurricanes. This year has been more challenging with Cuba's liquidity problems and a renewed focus on import substitution. Cuba has all but rolled up the welcome mat to anyone not offering credit and the few business opportunities that remain increasingly benefit those Cuba considers its "closest friends."

FARRAR